



Price Increases in Highly Fragmented Sectors: Turkish Competition Board's decision on the Red Meat Producers

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I. Introduction

This article aims to provide insight on the Turkish Competition Board's ("**Board**") decision¹ to conclude the preliminary investigation concerning multiple undertakings operating in the red meat sector, specifically those involved in livestock farming and meat production. The decision sheds light on the Board's approach to practices in relation to competitively sensitive information exchange and price fixing between the undertakings as well as the standard of proof. In its decision, the Board evaluates the competitively sensitive information exchange and the standard that needs to be adopted in order to detect a violation of Article 4 of Law No. 4054 on the Protection of Competition ("**Law No. 4054**").

II. Procedural Background and Insight into Türkiye's Livestock Sector

The Board decided to launch a preliminary investigation against several undertakings in the red meat sector in order to determine whether the undertakings violated Article 4 of Law No. 4054 by deliberately restricting the supply of livestock which contributed to the increases in the red meat prices and creating commercial difficulties for butchers and consequently, for customers.

In order to gather the necessary information and documents for the preliminary investigation, the Turkish Competition Authority ("**Authority**") conducted on-site inspections in the investigated undertakings' premises and interviews with the various players active in the red meat sector as well as the association of undertakings, customers and relevant governmental departments.

¹ The Board's *Red Meat* decision dated 12.10.2023 and numbered 23-48/906-323.

Before delving into the substantial analysis, the Board examined the characteristics and dynamics of the livestock business. The Board noted that the livestock business is divided into three categories, namely, ovine, bovine and poultry. Bovine is further sub-segmented into four markets, dairy, breeding, fattening and combined. The Board stated that in cattle fattening operations, the breed, age, condition, and gender of the animals being fattened are crucial factors affecting production costs. To improve efficiency in fattening, key parameters include daily live weight gain, daily feed consumption or dry matter consumption, feed utilization rate or feed efficiency, carcass yield or carcass efficiency, carcass meatiness, fattening status, and the ratio of edible meat.

The Board provided an extensive analysis of the structure and challenges faced by Türkiye's livestock sector, with a particular focus on beef production. The Turkish livestock sector is divided into three main categories: small ruminant farming (sheep and goats), large ruminant farming (mainly cattle), and poultry farming. Within large ruminant farming, the Board identified four types of operations: dairy farms, which primarily focused on milk production but also provided calves for the beef market; breeding farms, dedicated to raising high-quality cattle specifically for meat production; feedlots, where cattle are fattened before slaughter; and mixed farms, which combined dairy and beef production, particularly prevalent in Türkiye's western regions.

According to the Board, one of the significant characteristics of the red meat sector is its fragmentation. As of 2022, approximately 92% of cattle farms in Türkiye had a capacity of less than 50 heads of cattle. Despite representing the majority of farms, these smaller operations account for only about 50% of the country's total livestock population. This high level of fragmentation creates several challenges, including inefficiencies in production and difficulties in coordinating market supply. The Board also highlighted the increasing dominance of larger, vertically integrated companies in meat processing, which have greater control over slaughtering, processing, and distribution channels, thereby influencing pricing and supply dynamics.

The Board further noted that one of most significant challenges for the Turkish red meat sectors is the high cost of feed, which constituted between 25% and 30% of total production costs. The Board emphasized that higher-quality feed was essential to increasing the yield of fattened

cattle, but it also raised operational expenses. Additionally, the Board noted that small and medium-sized farms struggled to achieve economies of scale, which led to higher production costs compared to larger operations that could spread fixed costs across greater output.

Further, the Board stated that the development of the livestock sector was essential for ensuring productivity in red meat production, and improving the structure of small-scale undertakings was critical for reducing costs and increasing efficiency. Organizational development in rural enterprises, for example, allows them to benefit from economies of scale, reducing costs and increasing market competitiveness. In addition, enhancing the business structures within the livestock sector supports small enterprises, enabling them to adopt modern technologies and improve profitability. These factors directly impact on the sustainability and growth of the red meat market.

In terms of the relevant product and geographic market, the Board did not define a relevant product market pursuant paragraph 20 of the Guidelines on the Definition of the Relevant Market, considering that defining a relevant product market would not have any effect on the Board's examination and assessments.

III. The Board's Assessments on the Violation of Article 4 of Law No. 4054

Under Article 4 of Law No. 4054, agreements and concerted practices between undertakings, and decisions and practices of associations of undertakings which have as their object or effect or likely effect of the prevention, distortion or restriction of competition directly or indirectly in a particular market for goods or services are illegal and prohibited. The Board emphasized that determining whether there is a violation under Article 4 of Law No. 4054 requires a more detailed assessment of the actions within the broader economic context, particularly considering the unique conditions of the agricultural sector, especially cattle farming. Therefore, the Board compared its decisional precedence in these sectors.

For example, *Raw Milk 2000* decision², the Board addressed the challenges faced by small-scale producers who lacked organizational power. In that case, the Board found that many small dairy farmers were forced to sell their products at prices below cost due to their inability to

² The Board's *Raw Milk 2000* decision dated 07.02.2000 and numbered 00-07/56-19.

store raw milk for extended periods and their lack of effective organization. The farmers' inability to organize made them vulnerable to market fluctuations and left them with little bargaining power against buyers. Similarly, in the *Tomato Purchase/Sale* decision³, the Board examined allegations that certain producers and unions fixed tomato prices. In this case, the Board underscored the importance of creating structured agricultural policies that protect producers from market volatility. Moreover, in *Potato/Onion* decision⁴, the Board stated that due to the small and scattered nature of agricultural operations, these markets are often immune to anti-competitive collusion.

In its *Vegetable and Fruit* decision⁵, the Board examined the allegations of price-fixing among producers of perishable goods, yet once again determined that the lack of infrastructure and the perishable nature of the products left little room for effective price manipulation. The Board noted that the short shelf life of such products forced producers to sell quickly and prevented collusion that might lead to market distortion.

The Board also assessed these principles in the *Cattle Farmers* decision⁶, which further highlighted the vulnerability of small-scale cattle producers. In this case, the Board evaluated claims of supply restrictions and price fixing within the cattle farming industry. The preliminary investigation revealed that these behaviors were not aimed at manipulating prices but were rather a response to market uncertainties and rising input costs, especially in feed prices, which accounted for a significant proportion of production costs. The Board found that these factors often forced smaller producers to group together in ways that may appear collusive but were, in fact, responses to the difficult market conditions they encounter.

Based on the foregoing, the Board indicated that in respect to the competition law analysis for the agriculture and livestock sectors which were constituted of large number of small-scale players who individually lacked the power to influence market dynamics, strict enforcement of competition law rules did not always take priority. This approach would apply to sectors where the players are small, fragmented, and unable to affect the market in significant ways.

³ The Board's *Tomato Purchase/Sale* decision dated 14.06.2001 and numbered 01-29/290-76.

⁴ The Board's *Potato/Onion* decision dated 11.09.2008 and numbered 08-55/835-320.

⁵ The Board's *Vegetable and Fruit* decision dated 01.07.2010 and numbered 10-44/768-255.

⁶ The Board's *Cattle Farmers* decision dated 15.05.2019 and numbered 19-18/278-123.

Moreover, the Board also emphasized that in jurisdictions such as United States and European Union in which the price-setting practices were considered more favorable than carried out by producer organizations. These practices are typically not aimed at limiting competition but rather at securing essential raw materials and ensuring the continuity of production.

Consequently, in line with its precedents, the Board evaluated that the cattle farming industry in Turkiye was highly fragmented, consisting of approximately 200,000 businesses. On average, each of these operations manages only about 18 cattle, which contributes to the condition of “atomization” in the market. This fragmented structure prevents any significant concentration of power within the market, as most cattle farmers operate with only a few animals, primarily for subsistence purposes.

This level of fragmentation has profound effects on the market. As each farmer follows their own production planning, the amount of red meat supplied to the market is inconsistent, leading to frequent fluctuations in both supply and prices. This economic uncertainty leaves cattle farmers in a vulnerable position, especially when negotiating with intermediaries and processors, who typically hold more market power. As a result, many cattle farmers are unable to protect their commercial rights and are sometimes forced to sell their products below cost. This unsustainable economic model has forced many livestock businesses to either to downsize or exit the market.

Moreover, the Board emphasized that as seen in many agricultural markets, the cattle farming sector exhibits a market structure where producers act as price takers. In light with the information obtained during the preliminary investigation stage, the Board noted that cattle farmers did not set prices; rather, slaughterhouses and intermediaries presented the farmers with price options based on the breed and type of the cattle. The negotiation process typically revolves around whether the farmer agrees to the prices for fatty or fatless meats, which are determined by the slaughterhouses. In light of this analysis, the Board concluded that the argument that cattle farmers were not in a position to set the prices collectively.

The Board noted that red meat sector in Turkiye faces ongoing supply issues, but demand continues to grow, especially during certain times of the year like Ramadan. Every year, during Ramadan, food prices in Turkiye tend to rise due to increased demand, and they usually return to normal afterward. The Board further noted that the tourism sector has a big impact on demand

for meat. For example, in 2023, high expectations for tourism, especially in regions like the Aegean and Mediterranean, led many businesses to buy large quantities of meat early, which further pushed up demand.

To achieve stability in both prices and supply, the Board pointed out that it is crucial to strengthen the position of cattle farmers in the supply chain. The food production process is often referred to as a “value chain,” and as a product moves through this chain, its price increases. The more steps there are in the chain, the higher the price, which can damage consumers. While the increase in value may improve product quality, it also leads to higher costs for consumers. Given that food is a basic need, it is important to ensure that people have access to affordable, quality products.

The fragmented nature of the red meat sector creates risks for its long-term sustainability. Without better organization and efficiency in the supply chain, the industry remains vulnerable to market disruptions. For example, the white meat sector, which is more integrated, has experienced less price volatility and more stable prices compared to red meat. The steady prices in poultry show the potential benefits of better organization and integration in the red meat sector.

The Board concluded that the current system in the red meat sector involves many intermediaries, such as wholesalers, brokers, and retailers, before products reach the final consumer. This approach leads to inefficiencies and higher costs. It not only raises prices for consumers but also limits the earnings of cattle farmers, making them more vulnerable to market changes. The Board suggests that improving marketing channels, either through vertical integration or stronger cooperation among farmers, could help shorten the supply chain, increase efficiency, and bring more stability to the market.

According to its assessments and findings, the Board decided that the recent increases in red meat prices could be explained by economic factors. Given the fragmented nature of the cattle farming sector in Türkiye, the price increases observed in the market cannot be attributed to a violation of Article 4 of Law No. 4054 and the Board concluded that there is no significant or sufficient evidence to indicate that the price increases were the result of any anti-competitive actions or collusion between the cattle farmers.

IV. Conclusion

In light of the foregoing substantive and economic assessments, the Board unanimously decided that it is not required to launch a full-fledged investigation against the undertaking operating in the red meat sector since there was no sufficient evidence that would indicate that the red meat producers deliberately caused the prices increases in the market and therefore did not violate Article 4 of Law No. 4054. The preliminary investigation was therefore concluded.

This decision highlights the key economic and structural factors affecting the red meat sector, in particular in terms of the fragmented nature of cattle farming and the challenges against market stability. The Board's assessments provide important insights into the role of small producers and intermediaries, while clarifying the limitations of competition law enforcement in such fragmented markets. Moreover, the decision sets a significant precedent for future cases by emphasizing the importance of addressing structural inefficiencies and understanding broader economic factors, such as supply chain vulnerabilities and price fluctuations.

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(First published by Mondaq on November 6, 2024)